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October 23, 2012

Via Email

Jessica Freiheit Kurzban, Esq.
Wilmer Cutler Pickering Hale and Dorr LLP
350 South Grand Avenue
Suite 2100
Los Angeles, CA 90071

Re: **SEC v. Goldstone**

Dear Ms. Kurzban:

I am writing on behalf of KPMG LLP ("KPMG") in response to our October 15 telephonic meet-and-confer, your October 18 letter purporting to summarize the open items from that meet-and-confer, and your October 18 email requesting that we agree to schedule 10.5 hours of testimony each for Ms. Reinhart and Ms. Hall.

Depositions:

Assuming we can reach an agreement regarding the date, length and location of each deposition, Ms. Reinhart is available for deposition on December 19 & 20 in Albuquerque and Ms. Hall is available for deposition on December 5 & 6 in Charlotte, NC. (Ms. Hall works and lives in Charlotte.)

Scope of KPMG's productions to the SEC:

KPMG received a subpoena from the Denver office of the United States Securities and Exchange Commission ("SEC") on April 28, 2008 requesting KPMG to produce:

all documents concerning Thornburg's fiscal year 2007 audit and quarterly reviews and any restatements pertaining thereto, including but not limited to financial statements, workpapers, permanent files, notes, correspondence, memorandums, contracts, desk files, billing records, reports, filings with federal or state securities agencies, and compensation arrangements.

KPMG undertook an extensive collection, review and production process. It is our understanding that the SEC has provided defendants with a copy of all documents produced by KPMG to the SEC.

KPMG produced documents produced to the SEC within each of the categories of documents requested in defendants' Subpoena, dated September 18, 2012, as described below:

Request #1:

- All KPMG work papers for the year-end audits and quarterly reviews of the financial statements of Thornburg Mortgage Inc. ("Thornburg") as followings,

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EXHIBIT

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- Third Quarter 2006 review work papers;
 - 2006 year-end audit work papers;
 - First Quarter 2007 review work papers;
 - Second Quarter 2007 review work papers;
 - Third Quarter 2007 review work papers;
 - 2007 year end audit work papers;
 - 2007 restatement audit work papers;
 - First Quarter 2008 review work papers;
 - Second Quarter 2008 review work papers;
 - KPMG Permanent Files for Thornburg; and
 - Comfort Letter work papers for Preferred and Common stock offerings between November 2006 and January 2008.
- 2006 & 2007 Thornburg "L" Drives
 - The "L" Drives are materials that Thornburg prepared and provided to KPMG's audit team in electronic format.
- KPMG's Client Acceptance/Continuation/Assessment materials concerning the Thornburg audits for 2006-2008.
- Desk files from the following KPMG Custodians:
 - Daniel Acree
 - Anita Agarwal
 - Tara Baucom
 - James Browning
 - Craig Crawford
 - Michael Foley
 - Stephen Galbreath
 - David Glass
 - Jennifer Hall
 - Jason Harris
 - Mary Meg Jones
 - Arhom Kim
 - Patrick Kinsella
 - Kurtis Kurminsky
 - Robert McLamb
 - Kutlay Mescioglu
 - Matthew Plummer
 - Samuel Ranzilla
 - Cynthia Reinhart
 - Phillip Richbourg
 - Yuval Ron
 - Michael Smith
 - Tina Stoliar
 - Angela Storm
 - John Taylor
 - Enrique Tejerina
 - Clyde Womack
 - Audit Room desk files (2006 year-end audit)
 - Document Files (2007 year-end audit)
 - Tara Baucom
 - Jennifer Hall
 - Cynthia Reinhart
 - Audit Room

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▪ Audit Room – Restatement files

◦ ESI from the following KPMG Custodians:

- Daniel Acree
- Anita Agarwal
- Justin Ayre
- Tara Baucom
- Jeffrey Bower
- James Browning
- Walter Conn
- Brandon Craig
- Craig Crawford
- Pedro Ejzykowicz
- Michael Foley
- Stephen Galbreath
- David Glass
- Jennifer Hall
- Jason Harris
- Mary Meg Jones
- Arhom Kim
- Patrick Kinsella
- David Kowalski
- Kurtis Kurminsky
- Robert McLamb
- Kutlay Mescioglu
- Wayne Pentrack
- Matthew Plummer
- Samuel Ranzilla
- Cynthia Reinhart
- Phillip Richbourg
- Yuval Ron
- Corey Sisler
- Michael Smith
- Tina Stoliar
- Angela Storm
- John Taylor
- Enrique Tejerina
- Camaron Thorson
- Lisa Wheelis
- Clyde Womack

Hard copy desk files and ESI were collected from KPMG personnel between April 14, 2008 and May 23, 2008.

KPMG collected desk files and ESI from custodians satisfying the following criteria: (i) professionals who charged at least 50 hours to the 2007 Audit engagement, and additional managers or partners who acted as specialists or were consulted by the 2007 Audit team, *e.g.*, specialists in FAS 91 and 133 or members of the Department of Professional Practice (but not specialists consulted regarding REIT tax or structured finance issues); or (ii) the personnel who charged time to and played a significant role in the restatement process.

KPMG's ESI collection involved a two-step process: for each custodian, (i) a KPMG Forensic Technician worked with each custodian to collect entire Outlook, hard drive and network

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files and/or folders identified by the custodian as containing Thornburg-related materials; and then (ii) the KPMG Forensic Technician would run a search on each custodian's computer using the following search terms to collect additional documents:

- thornburg
- tma
- thornburgmortgage.com
- Ahn
- Anderson
- Anne-Drue
- Ater
- Buniel
- Feldman
- Fellers
- Goldstone
- Mullin
- Rhoades
- Simmons
- Smiley
- Starrett
- Heller
- hewm

A team of attorneys then reviewed the collected ESI to determine if the materials were responsive, *i.e.*, related to Thornburg.

During our discussion regarding Request No. 1 and several similar requests, you asked for production of documents – through the present date – created by or for KPMG's outside counsel at Hogan Lovells or KPMG's in-house counsel, including internal communications among the attorneys representing KPMG, because the defendants were entitled to know the "contours" of any PCAOB or SEC investigations. As I explained, all of these requested documents are protected from disclosure by the attorney-client privilege, the work-product doctrine and/or the PCAOB privilege. You then demanded that we create a privilege log for all of these documents – which would cover thousands of privileged documents and communications over four years. Your demand for a privilege log reflecting and covering our entire representation of KPMG in connection with PCAOB and SEC investigations is unheard of, legally unsupportable and clearly intended to be harassing and abusive.

KPMG is prepared to submit a privilege log pursuant to FRCP 45(d)(2)(A) listing communications with the PCAOB which are covered by the PCAOB privilege under 15 U.S.C. § 7215(b)(5)(A).

Request Nos. 2-3, 5, 6, 10:

We view these requests and KPMG's response as substantially similar to Request No. 1.

Request No. 4:

You explained that you need KPMG to produce its correspondence with the SEC because the SEC apparently erred in making its initial production to defendants by omitting a small portion of the production. My understanding is that the SEC corrected its oversight when the defendants called the mistake to the SEC's attention. You have not identified any materials missing from KPMG's productions to the SEC, so we are not inclined to replicate the SEC's production or produce correspondence with the SEC – all of which you presumably have requested from the SEC – just so defendants will be certain that everything has been produced by the SEC. Non-party KPMG should

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not be burdened when there is no apparent need for the requested materials; if defendants can demonstrate that the SEC cannot produce something previously produced to it by KPMG, we will make defendants a duplicate copy.

Request No. 7(a):

KPMG notes that two KPMG personnel, Ms. Reinhart and Ms. Hall, have been deposed by the SEC in connection with its investigation of Thornburg. It is our understanding the SEC has provided those transcripts and exhibits to you. In addition, Ms. Reinhart and Ms. Hall have each been interviewed by the SEC.

Request No. 7(b):

See Response to Request No. 1 for a list of KPMG personnel from whom KPMG collected and produced documents to the SEC.

Request No. 7(c):

KPMG reiterates its objection to this Request as it seeks materials that are confidential, privileged, and/or protected from disclosure under 15 U.S.C. § 7215(b)(5)(A) as well the attorney client privilege and/or the attorney work product doctrine.

Request No. 7(d):

KPMG produced to the SEC its Summary of Time Charged to Engagements For Thornburg Mortgage Inc., which is bates numbered KPMG-THRN-SEC-0121733-0121791.

Request No. 8:

KPMG produced to the SEC certain of its internal literature, manuals and training materials:

- Integrated Audit Manual – August 2005;
- Integrated Audit Manual – September 2007;
- Integrated Work Flow – 2006-2007;
- Audit Manual – May 2006;
- Audit Manual – June 2007;
- QPCP Manual – March 2008;
- Document Retention Policy – November 2005;
- Accounting and Reporting Guidance – January-February 2008;
- SEC Manual – December 2007;
- Risk Management Manual – November 2005;
- Professional Practice Letters;
 - 07-060: Accounting and Auditing Considerations Related to Illiquid Credit Market Conditions – October 5, 2007;
 - 07-063: Market Price Changes After Balance Sheet Date – Consideration of Subsequent Events Disclosure – October 30, 2007;
 - 07-067: Credit Market Conditions – Audit Considerations and Policies Regarding Targeted In-Depth Reviews and Involvement of Valuation Specialists – December 10, 2007 – superseded on January 28, 2008;
 - 07-067A: Identifying Investments Impacted by the Illiquid Credit Market Conditions – January 10, 2008;
 - 08-013: Reminder: Subsequent Events – Fair Value Measurements and Disclosures – February 4, 2008;
 - 08-063: Going Concern Uncertainty Matters – November 14, 2008;
- Listing of Banking and Finance Information Letters and Real Estate Information Bulletins – 2006-2008;
- Illiquid Market Credit Conditions: Reminders and Recent Guidance – January-March 2008; and
- Training Materials:

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- 2006 Audit Partner/Manager Training: Banking and Finance Accounting and Auditing Update;
- Fall 2006 Audit Partner/Manager Road Show: Improving Audit Quality;
- 2007 Audit Partner/Manager Training: Banking & Finance Industry Sector Update;
- 2007 Audit Partner/Manager Road Show: Accounting Update;
- KPMG KLearn Live!: Banking Technical update – September 6, 2007
- 2008 Audit Partner/Manager Training: Accounting Update;
- 2008 Audit Partner/Manager Training: Banking and Finance Industry Technical Update;
- Banking Technical update – March 20, 2008;
- Fall 2008 Partner/Manager Training: Audit & Accounting Considerations – Current Economic Environment;
- KPMG KLearn Live!: Banking Technical update – September 19, 2008.

KPMG reiterates its objection that it does not intend to conduct another search for additional documents potentially responsive to this Request, including your supplemental request made during the meet-and-confer for such materials up to the present time. Non-party KPMG objects to such a request as those materials are outside the relevant time period for this matter and such a request is unduly burdensome.

Request No. 9:

KPMG's collection process included the Outlook calendars of the KPMG personnel listed in Response to Request No. 1 above. Calendar entries relating to or concerning Thornburg were provided to the SEC as part of KPMG's ESI productions.

Request No. 10:

KPMG has produced personnel files and performance reviews to the SEC for the following KPMG personnel:

- Daniel Acree;
 - 2007 & 2008 Performance Reviews
- Tara Baucom;
 - 2007 & 2008 Performance Reviews
- Jeffrey Bower;
 - 2007 & 2008 Performance Reviews
- Jennifer Hall;
 - 2005 – 2008 Performance Reviews
- Matthew Plummer;
 - 2007 & 2008 Performance Reviews
- Cynthia Reinhart;
 - 2005 – 2008 Performance Reviews
- Anthony Sepci;
 - 2007 & 2008 Performance Reviews
- Lisa Wheelis; and
 - 2007 & 2008 Performance Reviews
- Clyde Womack
 - 2007 & 2008 Performance Reviews.

KPMG reiterates its objection that it does not intend to conduct another search for additional documents potentially responsive to this Request for personnel files and evaluations for *any* professional who worked on Thornburg related matters. Non-party KPMG objects to such a request as being unduly burdensome, and seeking materials unrelated and irrelevant to your litigation.

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Request No. 11:

KPMG has produced to the SEC certain materials responsive to this Request that are listed in Response to Request No. 8, above, as follows,

- Professional Practice Letters;
- Listing of Banking and Finance Information Letters and Real Estate Information Bulletins;
- Illiquid Market Credit Conditions: Reminders and Recent Guidance; and
- Training Materials.

These materials are not necessarily Thornburg-related but are certain of KPMG's internal guidance prepared for its audit professionals regarding current market conditions and the potential impact on financial statement audits during the relevant time period. KPMG reiterates its objection that it does not intend to conduct another search for additional documents potentially responsive to this Request. Non-party KPMG objects to such a request as being unduly burdensome.

Very truly yours,



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